



Hawai'i's Fiscal and Financial Condition 2013

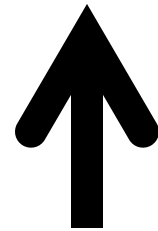
December 6, 2013

The Historical Context 2011

Hawai'i's Economy Floundering - 2011

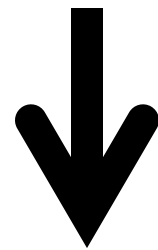
**STILL IN
RECESSION
-0.2%**

Hawaii Gross Domestic
Product (GDP) Shrank
(U.S. Bureau of Economic Analysis)



Unemployment High

6.6%	7.9%	9.3%	8.5%
Statewide	Maui	Hawaii	Kauai



Construction Sector down from 2010

- **18.7%** Contracting General Excise (GE) tax base down
- **7.9%** Construction income down
- **5.0%** Construction job count down

Tourism Still Recovering

- Japan earthquake and tsunami weighed on sector
- Visitor arrivals grew nominally 3.5% from 2010 (UH Economic Research Organization/UHERO)
- Revenue Per Available Room (RevPAR) remained low at \$139, below pre-recession levels

Dire Fiscal Condition- 2011

- \$220 Million

Budget Shortfall Forecast

- Public Worker Contracts Expiring June 30, 2011 (except 1 Collective Bargaining Unit/CBU)
- Cost-Cutting Measures Implemented
 - Furloughs
 - Under-funded programs
 - Crippled services
- Reserve Funding Ratios and Reserve Balances Poor
- Credit Rating Downgraded (Moody's)
- Annual Financial Report (Comprehensive Annual Finance Report/CAFR) for FY2009 and FY2010 produced up to a year late

Turning Around State Finances



2013 – Fiscal Health Restored

+ \$880 Million

Positive Balance

Over \$1B Turnaround

- Achieved through spending reduction measures and increasing revenues resulting in increasing positive ending balances during FY11, FY12, and FY13.

• Public Worker Contracts Reached for FY14 and Beyond

No

Labor Disruptions

No

Layoffs

No

Furloughs

Affordable and Sustainable

Wage and Benefit Increases

2013 – Fiscal Health Restored

- **Restoring Critical State Services through Strategic Targeted Process**
 - Cease ineffectively funded programs
 - Evaluate future funding based on a sustainability framework
 - Restored services include: agricultural inspections, watershed protection,
- **Recapitalizing Reserves to Higher Than Pre-Recession Levels**
 - Established targeted reserve plan and fiscal ending balance targets
 - Recapitalization plan to begin in 2014
- **Effectively Managing Liabilities**
 - Pension reform measures passed
 - Other Post-Employment Benefits (OPEB) pre-funding now law

Positive Comments From Credit Rating Agency

“Due in large part to the state’s current and projected fiscal position, as well as its recently formalized commitment to addressing its retirement liabilities, we (S&P) see Hawaii’s credit quality poised to strengthen.”

Standard & Poor’s Rating Review
October 9, 2013

**STANDARD
& POOR’S**

Economic Turnaround

Growing and Strengthening Economy

Highlights of Current Economy

- **3.8%** Unemployment on Oahu (8/13)
5th lowest in the nation

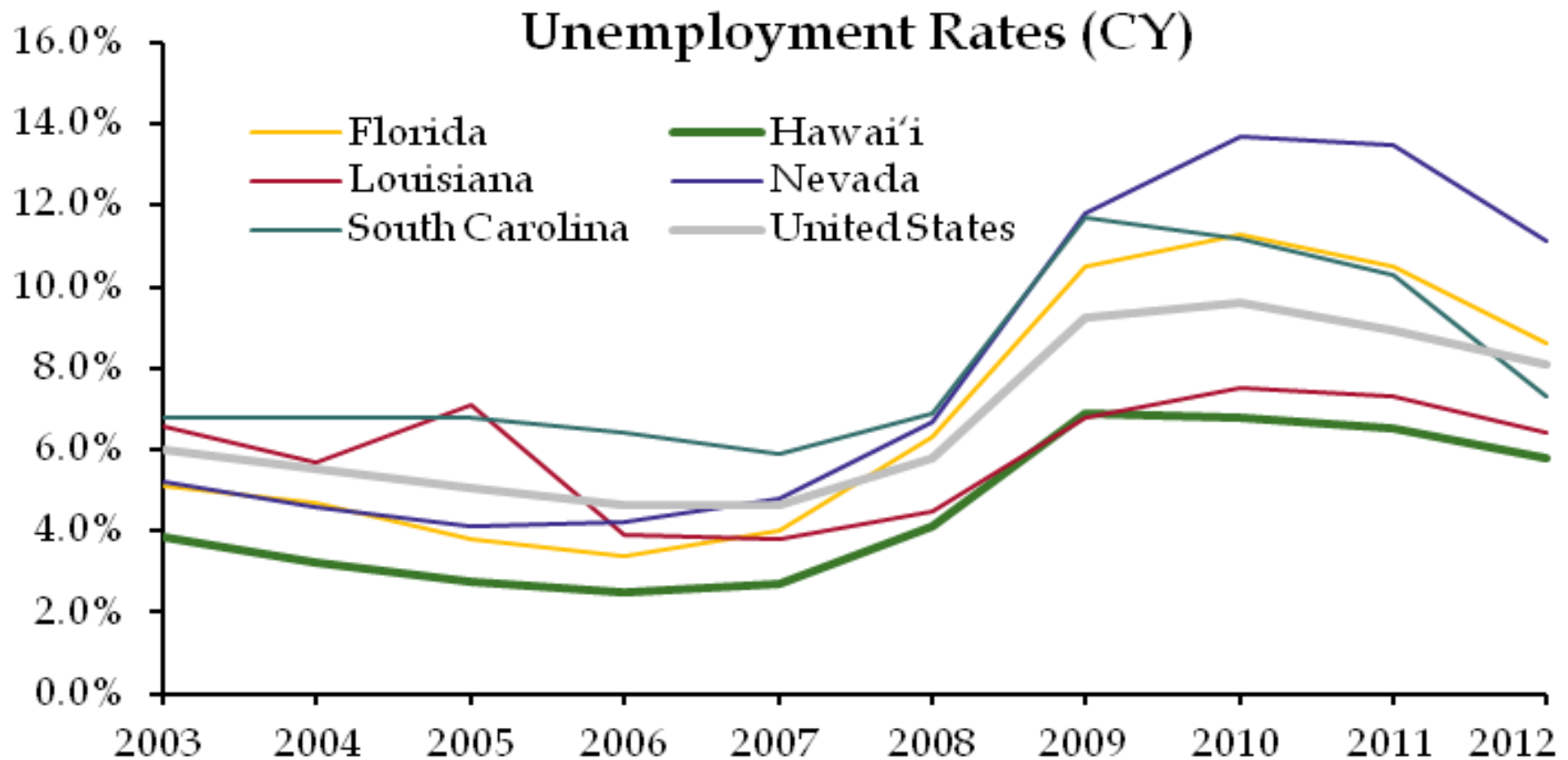


- Income levels in Hawai'i consistently rank in the **top 10** nationally

- Tourism to set **record highs** in 2013 for:
 - Arrivals, Visitor Spending, Hotel Occupancy and Revenue Per Available Room (RevPAR)
- State contributing significantly – maintaining employment levels and investing in infrastructure
- Real estate market strong with high sales velocity, stable prices and very low foreclosures
- Military presence growing, contributing to Hawai'i's economy and security

Key Indicators

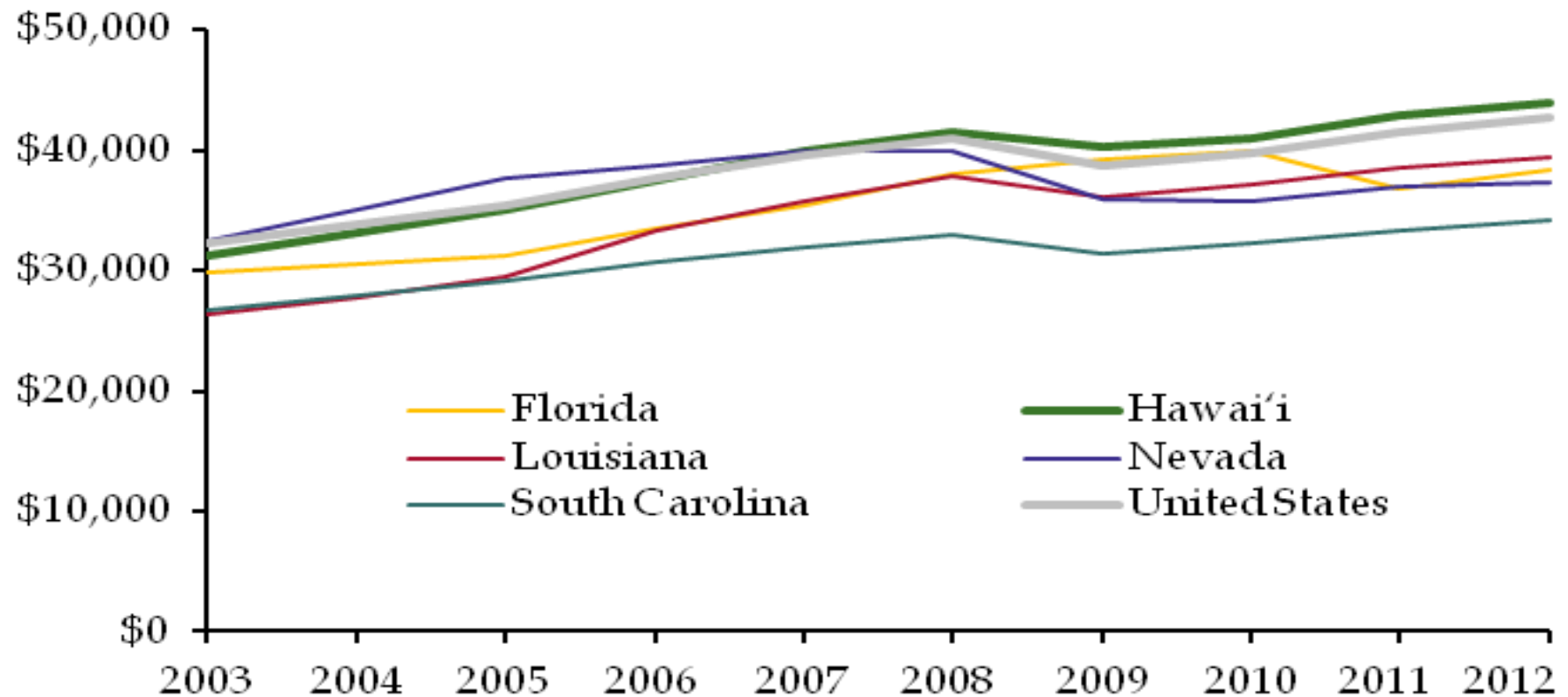
Hawai'i's Economy Out-Performing Nation and Other States



Key Indicators

Hawai'i's Economy Out-Performing Nation and Other States

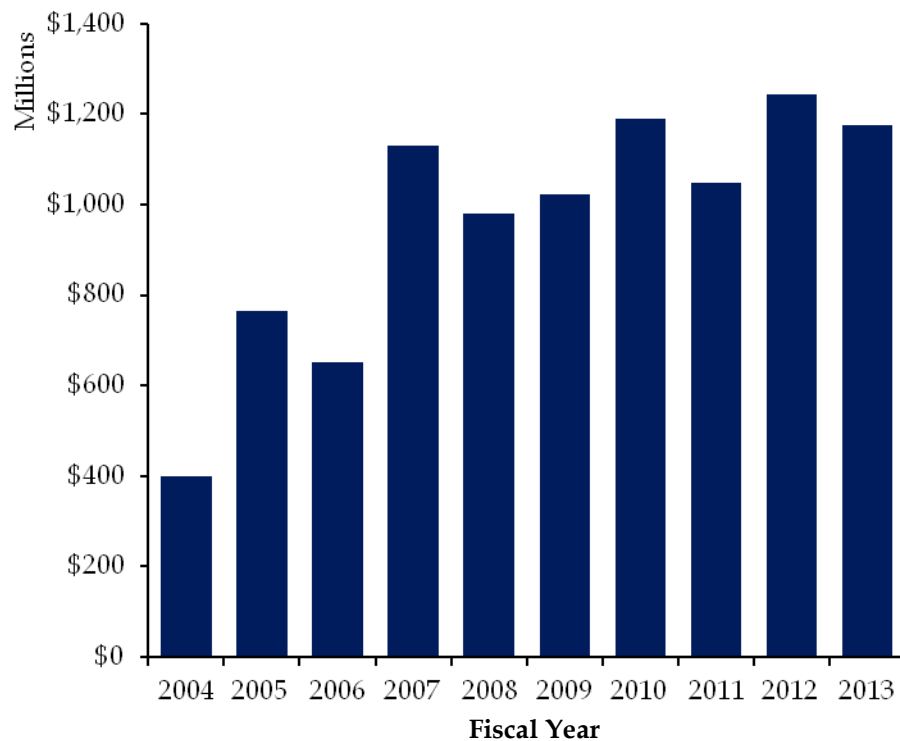
Per Capita Income (CY)



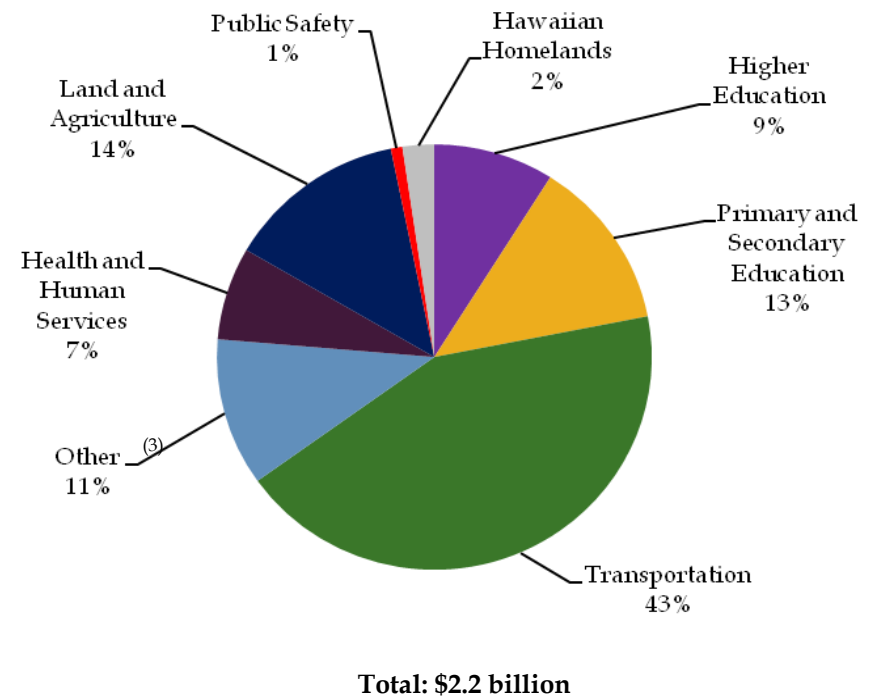
State Investments

The Administration Contributing to Economic Growth; Investing in Infrastructure

Capital Improvement Expenditures⁽¹⁾



Budgeted FY14 Capital Investment⁽²⁾



Source: State of Hawai'i.

(1) Actual. Includes all funding sources, including State, Federal and Private contributions to State projects.

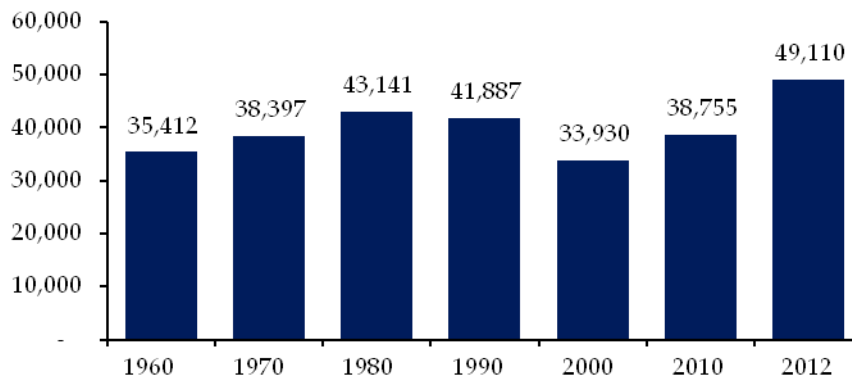
(2) Budgeted. Includes all funding sources, including State, Federal and private contributions to State projects.

(3) Includes Grant-In-Aid, Energy, Parks/Boating, Conservation/Environmental, Economic Development, and other Miscellaneous items.

U.S. Military

Presence in Hawai'i Will Continue to Increase; Contribute to Economy

Total Active Duty Military Personnel in Hawai'i
(Federal Fiscal Year)



Active Duty Military Personnel by Branch

Branch	1992	2002	2012
Army	18,666	15,985	22,546
Navy	12,321	8,654	15,066
Marine Corps	8,945	5,680	6,385
Air Force	4,932	4,289	5,113
Total	44,864	34,608	49,110

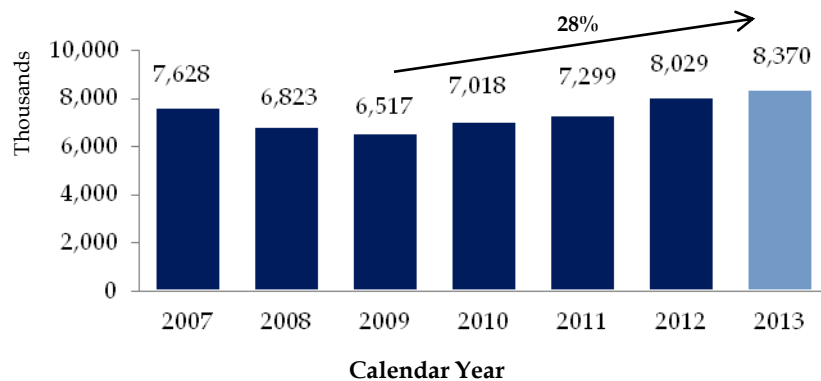
*"This Asia-Pacific rebalance is not only about our security interests in this area,
it's about a partnership of prosperity for this region of the world..."*

- Defense Secretary Chuck Hagel, August 23, 2013

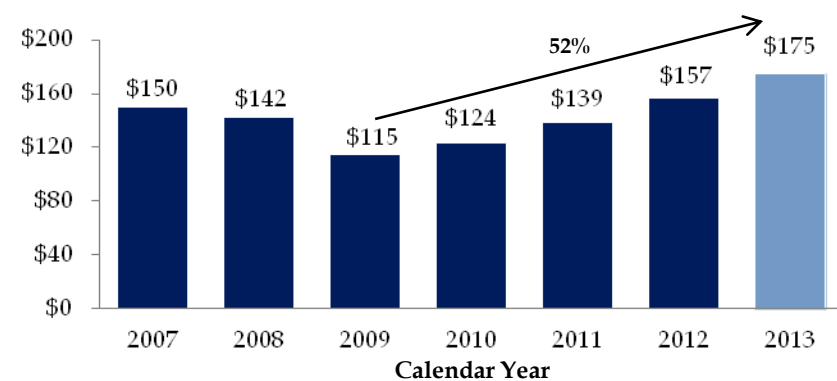
Tourism Industry

Hawai'i's Tourism Continues to Show Exceptional Growth

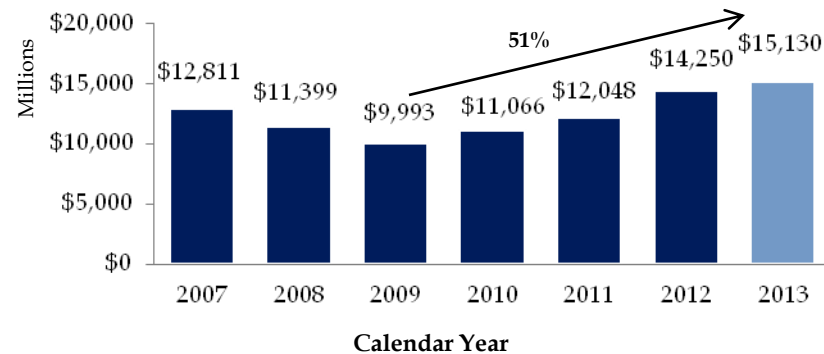
Visitor Arrivals⁽¹⁾



Revenue Per Available Room



Visitor Expenditures⁽¹⁾



Source: DBEDT, Smith Travel Research, Hospitality Advisors LLC.

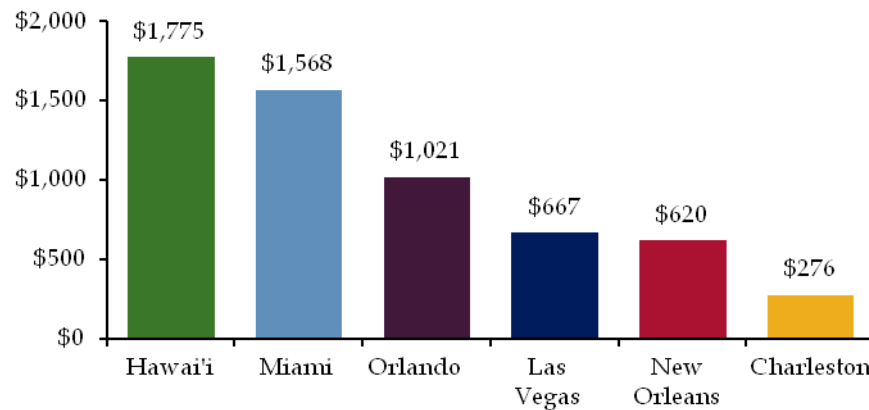
(1) 2013 figure is a projection.

(2) Last twelve months from August 2012 to July 2013.

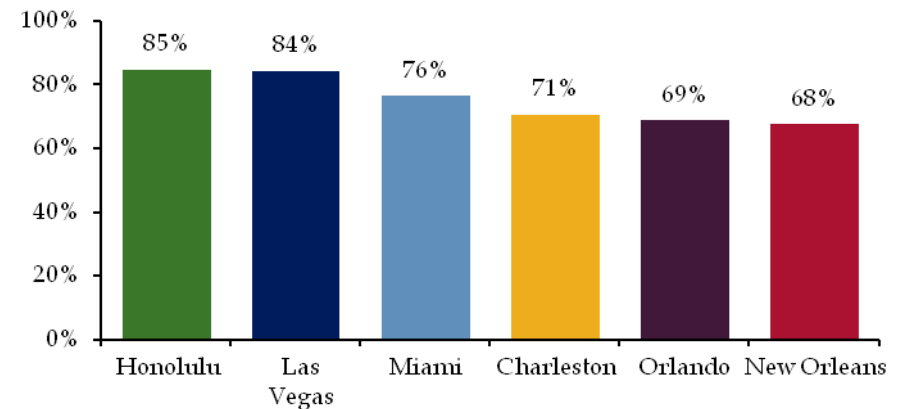
Tourism Industry

Hawaii Leads Other Domestic Destinations

Average Amount Spent Per Trip⁽¹⁾



Average Occupancy Rates⁽²⁾



(1) Hawai'i Tourism Authority (CY 2012); Las Vegas: Las Vegas Convention and Visitors Authority (CY 2012); Greater Miami Convention & Visitors Bureau (CY 2012); Visit Orlando (CY 2011). University of South Carolina (CY2011); New Orleans Convention & Visitors Bureau (CY2012).

(2) Smith Travel Research (CY 2012). Colliers International. College of Charleston's Office of Tourism Analysis.

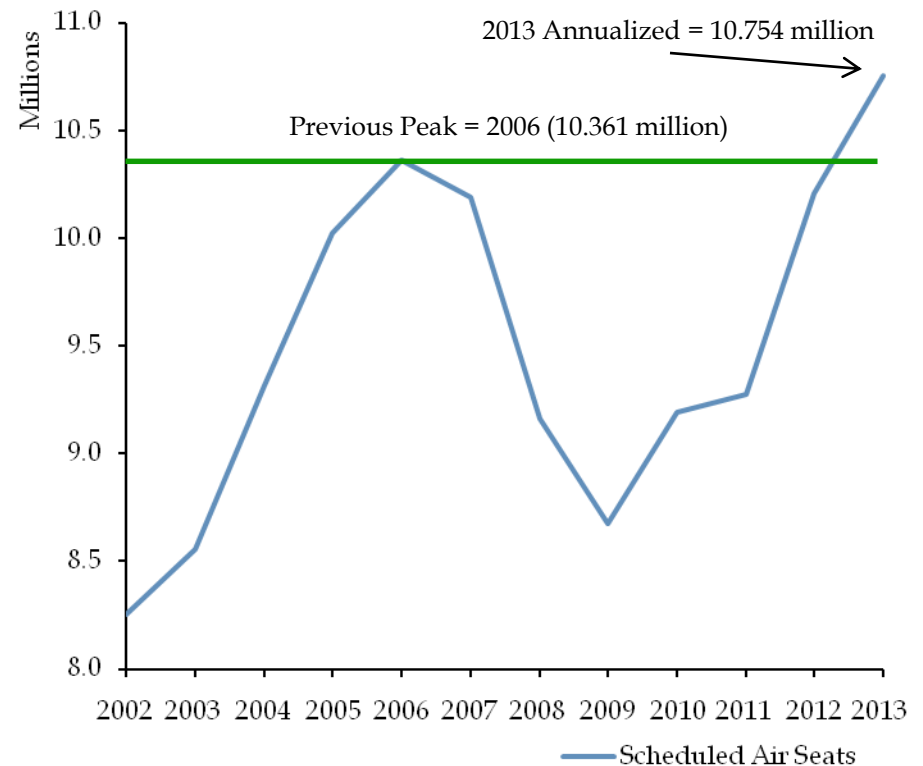
Tourism Industry

Airline Seat Capacity Increasing; Record Projected for 2013

Selected Routes in 2013⁽¹⁾

Arrival City	Air Seats Added	% Increase
Bellingham, WA	34,084	101.9%
Brisbane, AUS	24,492	640.8%
Fukuoka, JPN	49,673	96.4%
Los Angeles, CA	46,116	3.6%
New York, NY	45,570	271.9%
Oakland, CA	16,280	8.3%
Portland, OR	21,749	14.9%
San Diego, CA,	14,512	11.3%
San Francisco, CA	14,430	2.8%
Sapporo, JPN	23,634	NA
Seattle, WA	27,703	7.5%
Seoul, KOR	37,817	20.2%
Washington D.C.	34,614	272.8%
Other ⁽²⁾	98,073	3.4%
Total	488,747	8.4%

Scheduled Air Seats



Air China will commence first ever Beijing-Honolulu service in January 2014 to be followed by Hawaiian Airlines in April 2014. China Eastern expanded its Shanghai service to 4 times weekly in 2013. Hawaiian Airlines also began direct service to Taipei in 2013

Source: Hawai'i Tourism Authority and DBEDT.

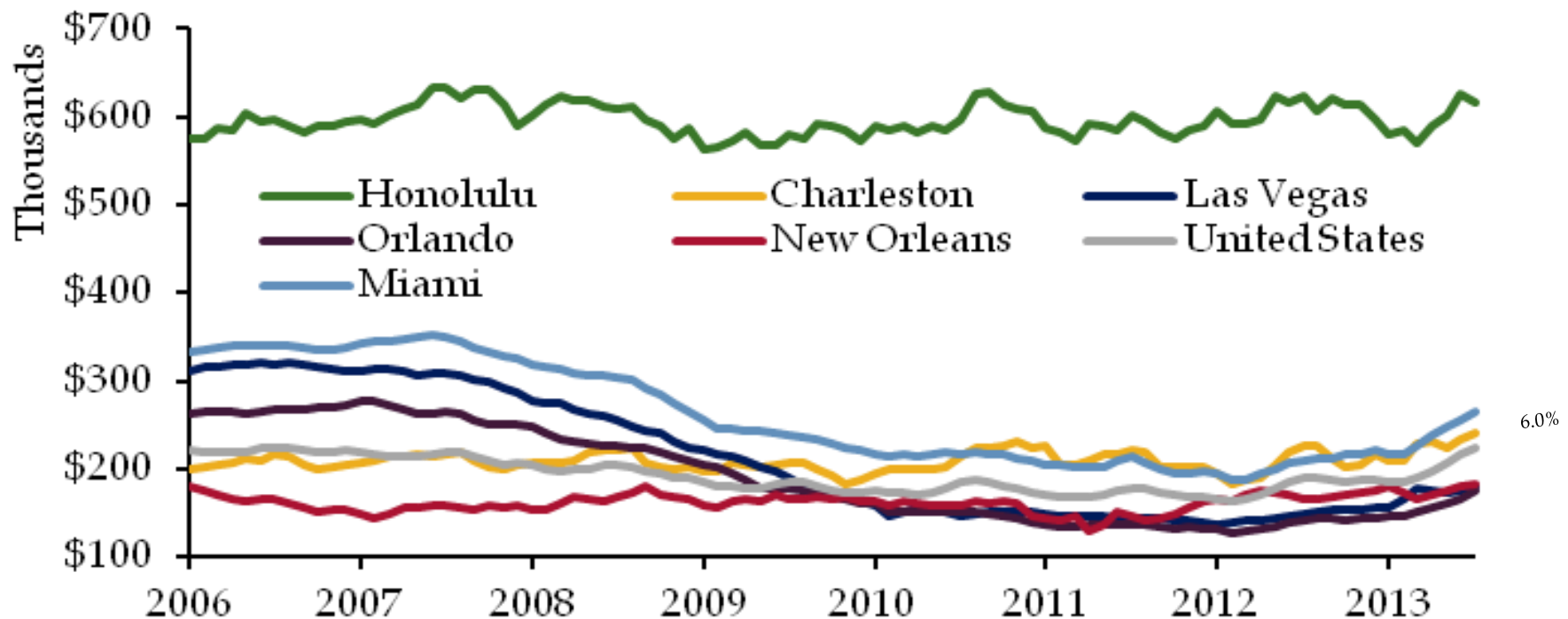
(1) As of July 2013.

(2) Includes 41 cities such as Tokyo, Osaka, Nagoya, Shanghai, Taipei, and other Canadian and U.S. cities.

Real Estate Industry

Hawai'i Real Estate Strong and Supporting Overall Economy

Median Single Family Home Prices (CY)⁽¹⁾



Honolulu represents 70% of the total Hawai'i real estate market, illustrating the consistency and strength of the Hawai'i market

(1) National Association of Realtors. 2013 median single family home prices is through second quarter.

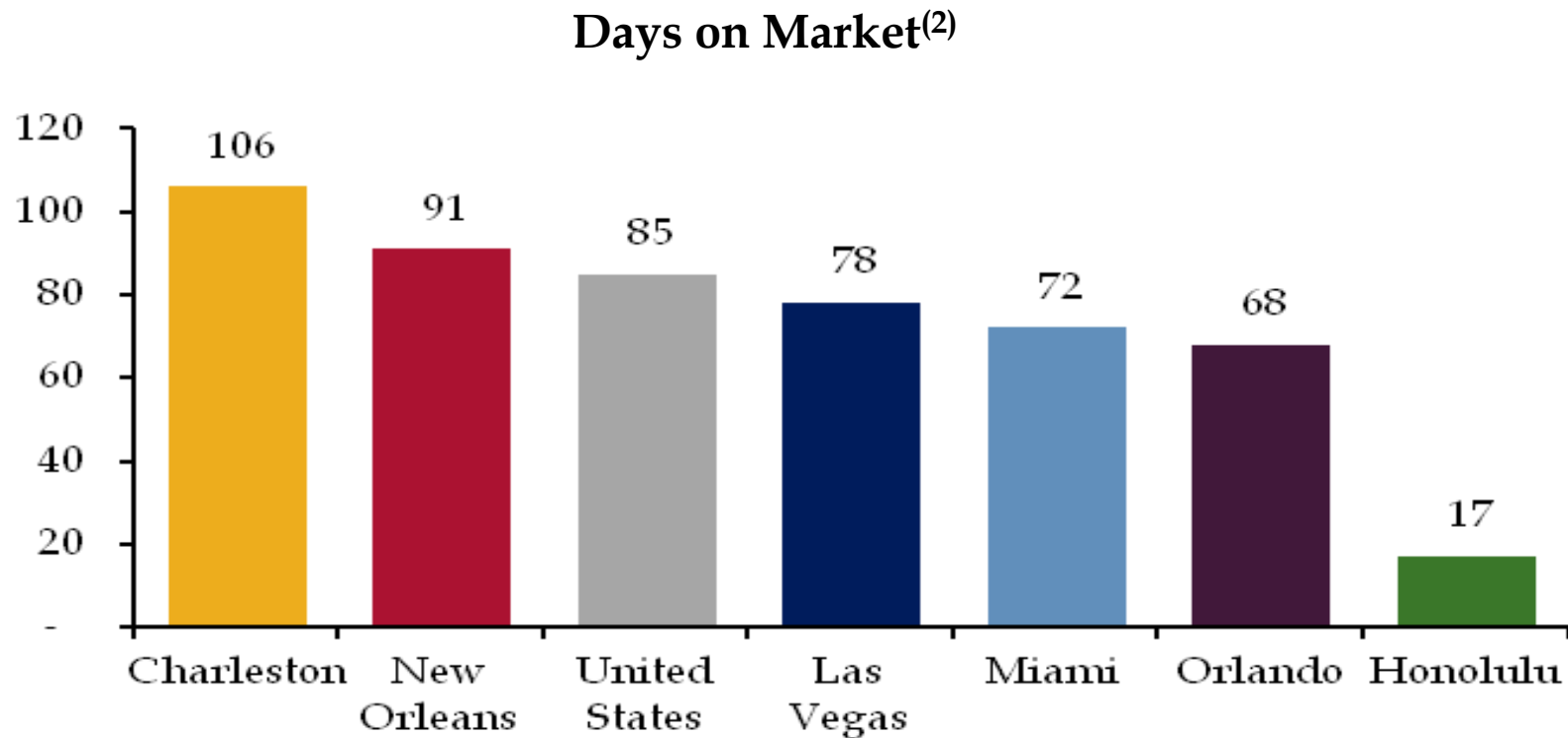
(2) www.realtor.com and Honolulu Board of Realtors. Reflects July 2013.

(3) www.realtytrac.com. As of July 2013.

(4) Net taxable property value.

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Conclusion

Hawaii Back on Track

State Financial Health Restored

- **Over \$1B Turnaround Achieved**
- **Hawaii Ready for the Future - Sustainable Long-Term Fiscal Plan**

Economy Vastly Improved

- **Unemployment Among Nation's Lowest**
- **Major Sectors Strong**



Mahalo

